

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended .

Unit Name Chelsea District Library	County WASHTENAW	Type LIBRARY	MuniCode 81-8-001
Opinion Date June 18, 2008	Audit Submitted June 26, 2008	Fiscal Year 2007	

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/> 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/> 3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input type="checkbox"/> 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> 5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> 6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> 12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/> 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> 16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> 17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> 18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="\$1,572,282"/>
General Fund Expenditure:	<input type="text" value="\$1,320,286"/>
Major Fund Deficit Amount:	<input type="text"/>

General Fund Balance:	<input type="text" value="\$160,444"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="\$7,799,150"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name) David	Last Name Fisher	Ten Digit License Number 1101010337		
CPA Street Address 675 Robinson Road	City Jackson	State MI	Zip Code 49203	Telephone (517) 787-6503
CPA Firm Name Rehmann Robson	Unit's Street Address 221 S. Main S	City Chelsea		Zip Code 48118

CHELSEA DISTRICT LIBRARY



FINANCIAL STATEMENTS

**For The Year Ended
December 31, 2007**



REHMANN ROBSON

Certified Public Accountants

CHELSEA DISTRICT LIBRARY

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

June 18, 2008

To the Board of Trustees
Chelsea District Library
Chelsea, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of **CHELSEA DISTRICT LIBRARY**, as of and for the year ended December 31, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, and each major fund of Chelsea District Library, as of December 31, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis For the year ending December 31, 2007

The discussion and analysis of Chelsea District Library's (the "Library") financial performance provides an overview of the Library's financial activities for the fiscal year ended December 31, 2007. Please read it in conjunction with the Library's financial statements.

Using this annual report

The funds are presented on the modified accrual basis of accounting, which is a short-term view that focuses on how taxpayer's resources are spent during the current period and the amounts of those resources available for future spending. The modified accrual based financial statements provide detailed information about the Library's current financial resources and demonstrates compliance with various state laws and shows the stewardship of the Library's annual property tax and other revenue.

The modified accrual based statements are converted to full accrual accounting based statements by incorporating long-lived resources and long-term obligations into the reporting model. Full accrual statements focus on full costing of current services and on the total resource picture of the Library.

Condensed Financial Information

The following table shows key financial information in a condensed format:

Statement of Net Assets	December 31	
	<u>2007</u>	<u>2006</u>
Assets		
Cash and investments	\$ 1,068,431	\$ 1,837,833
Capital assets	9,710,882	9,737,966
Other assets	1,902,639	183,580
Total assets	12,681,952	11,759,379
Liabilities		
Long-term liabilities	7,799,150	8,022,323
Other liabilities	2,009,023	1,074,396
Total Liabilities	9,808,173	9,096,719
Net Assets		
Invested in capital assets – Net of debt	1,945,882	1,742,966
Restricted for debt service payments	36,344	36,575
Restricted for other purpose	684,009	435,752
Unrestricted	207,544	447,367
Total net assets	\$ 2,873,779	\$ 2,662,660

<u>Statement of Activities</u>	December 31	
	<u>2007</u>	<u>2006</u>
Revenue		
Property taxes	\$ 1,848,288	\$ 1,711,100
Other	352,512	626,829
Total Revenue	2,200,800	2,337,929
Expenses	1,989,681	1,698,323
Change in Net Assets	\$ 211,119	\$ 639,606

Full Accrual Analysis

The full accrual statement of activities shows an increase in net assets of \$211,119. The General Fund acquired \$322,673 in new capital assets while depreciation charges were \$349,757, while reducing its bonded indebtedness by \$230,000. Capital outlay and payments on principal are an expenditure at the fund level, but are not expenses at the government wide level (accrual basis). This, along with certain other factors accounted for the increase in net assets.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, total \$207,544. Unrestricted net assets were reduced during the year by \$239,823.

Modified Accrual Analysis

The General Fund pays for all of the Library's services. The most significant costs are for personnel and related staffing expenses of approximately \$763,000, which accounted for 58 percent of the total operating expenditures in the year ended December 31, 2007. Collection costs amounted to approximately \$162,000 and were 15 percent of total operating expenditures. The general fund had a net change in fund balance (reduction) for the year of \$749,871, which included a transfer to the 2005 Library Building and Site Capital fund of \$1,001,867. Total fund balance is \$160,444 at December 31, 2007, and represents 12.1% of 2007 general fund expenditures.

The Library Building and Site Capital fund incurred expenditures of \$318,268 for the completion of the Library renovation and expansion project.

The debt service fund incurred the annual debt service on the general obligation bond, and has a fund balance of \$36,344 at December 31, 2007.

Budgetary Highlights

In the year ended December 31, 2007 for the general fund, the Chelsea District Library ended the year 87,410 under budget for total expenditures. Actual revenues exceeded the final amended budget by \$234,671. In the construction budget, 98.48% was spent, leaving a 2% balance.

There were no major purchases made during 2007, as almost all and equipment and furnishings were replaced as part of the building project in 2006.

There was a savings in personnel expenses due to the period when the Director's position remained vacant. The former Director resigned in May of 2007 and the position remained vacant until August. Other resignations that were unfilled for part of 2007 included the Marketing Director and the Volunteer Coordinator.

Budget modifications were made for the above, and overall were not significantly different than the original enacted budget.

Capital Asset and Debt Administration

As of December 31, 2007, the Library had \$ 9,710,882 invested in a broad range of capital assets, including land, buildings, equipment and furniture. Fixtures, signage, and furnishings related to the final stages of the renovation and expansion project, as well as computer equipment, were the major additions to capital assets in 2007 amounting to approximately \$322,000. Additional information on the Library's capital assets can be found in Note III-C.

The Library has a balance of \$ 7,765,000 remaining on its bonded indebtedness as of December 31, 2007. The final principal installment is due in the year 2024. All payments for interest and principal have been made in accordance with the bond amortization schedule. Additional information on the Library's capital assets can be found in Note III-E.

Economic Factors and Next Year's Budgets and Rates

The Chelsea District Library's budget for the fiscal year ending December 31, 2008 has included a conservative projection for tax revenues. There are appeals under review that may result in significant tax refunds, including one paid out in the amount of \$16,121 from Embridge Pipeline. Penal fines and state aid have been budgeted with no increases expected. The future of these revenue categories depend upon legislative action.

The City of Chelsea charged the Library \$27,389 for DDA TIFA debt, which was an unbudgeted expenditure.

Operating costs were increased to reflect regular staff salary increases.

The Chelsea District Library voter adopted millage rate for general operating purposes (1.75) was reduced again by the Headlee Amendment rollback to 1.6321. These factors were considered in preparing the budget for the 2008 fiscal year.

Notable Progress

- Director Cathy Russ resigned in May of 2007, and new Director Joan Elmouchi came on board on August 6, 2007.
- New Marketing and Volunteer Coordinator Wendy Smith came on board on November 5, 2007.
- The Window Well project was completed, colorfully painted with literary sayings, turtles and footprints adding to a pleasing display.
- Signage was added to the north brick wall outside of the building. City signage was also corrected to point to the new library on Main Street rather than to the temporary location on Washington Street.
- Additional shelving was added to increase space in the already-crowded picture book area.
- The library hosted Key Ingredients, and was one of only ten libraries and museums selected to host this Smithsonian exhibit. The kick-off event was Market Faire, with tents and vendors, Michigan produced food, music, a petting zoo and more.
- The first "Chelsea Reads" at the new building was presented with a jazz theme. Musical events were held every Sunday, and received a huge response, especially for jazz great Marcus Belgrave.
- The first Summer Reading Program was held in the new building, with increased participation in the youth dept. of 75%.
- The library hosted a stage for summer's Sounds and Sights, and for Summerfest in July.
- The library celebrated its one-year anniversary in the new building with a community party on October 14, 2007.

Key Performance Indicators

- Items borrowed: 279,622. 36% increase over 2006.
- Patron door count: 215,817. 52% increase over 2006.
- Number of library cards: 8,474
- Attendance at library programs: 8,736
- Reference transactions: 13,983

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and provide accountability for the resources entrusted to the trustees and the management of the Chelsea District Library. If you have questions about this report, or need additional information, contact the Chelsea District Library Director.

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BASIC FINANCIAL STATEMENTS

CHELSEA DISTRICT LIBRARY
Governmental Funds Balance Sheet/Statement of Net Assets
December 31, 2007

	General	2005 Library Building and Site Capital Project Bond Fund	Debt Service	Total	Adjustments	Statement of Net Assets
<u>ASSETS</u>						
Assets						
Cash and cash equivalents	\$ 503,121	\$ 1,549	\$ 66,402	\$ 571,072	\$ -	\$ 571,072
Investments	497,359	-	-	497,359	-	497,359
Pledges receivable	81,250	-	-	81,250	-	81,250
Taxes receivable	1,270,182	-	544,775	1,814,957	-	1,814,957
Due from other funds	-	682,273	12,636	694,909	(694,909)	-
Prepaid expenditures/expenses	6,432	-	-	6,432	-	6,432
Capital assets						
Assets not being depreciated	-	-	-	-	213,191	213,191
Assets being depreciated	-	-	-	-	9,497,691	9,497,691
<u>TOTAL ASSETS</u>	<u>\$ 2,358,344</u>	<u>\$ 683,822</u>	<u>\$ 623,813</u>	<u>\$ 3,665,979</u>	<u>9,015,973</u>	<u>12,681,952</u>
Liabilities						
Accounts payable	\$ 25,252	\$ (187)	\$ -	\$ 25,065	-	25,065
Accrued liabilities	26,765	-	-	26,765	-	26,765
Due to other funds	694,909	-	-	694,909	(694,909)	-
Deferred/unearned revenue	1,450,974	-	587,469	2,038,443	(81,250)	1,957,193
Long-term liabilities						
Due within one year	-	-	-	-	287,000	287,000
Due after one year	-	-	-	-	7,512,150	7,512,150
Total liabilities	<u>2,197,900</u>	<u>(187)</u>	<u>587,469</u>	<u>2,785,182</u>	<u>7,022,991</u>	<u>9,808,173</u>
Fund balance/Net assets						
Fund balance reserved for:						
Capital projects	-	684,009	-	684,009	(684,009)	-
Debt service	-	-	36,344	36,344	(36,344)	-
Fund balance - unreserved:						
Undesignated	<u>160,444</u>	<u>-</u>	<u>-</u>	<u>160,444</u>	<u>(160,444)</u>	<u>-</u>
Total fund balances	<u>160,444</u>	<u>684,009</u>	<u>36,344</u>	<u>880,797</u>	<u>(880,797)</u>	<u>-</u>
<u>Total Liabilities and Fund balances</u>	<u>\$ 2,358,344</u>	<u>\$ 683,822</u>	<u>\$ 623,813</u>	<u>\$ 3,665,979</u>		
Net assets:						
Investment in capital assets, net of related debt					1,945,882	1,945,882
Restricted for debt service					36,344	36,344
Restricted for capital projects					684,009	684,009
Unrestricted					<u>207,544</u>	<u>207,544</u>
Total net assets					<u>\$ 2,873,779</u>	<u>\$ 2,873,779</u>

The accompanying notes are an integral part of these financial statements.

CHELSEA DISTRICT LIBRARY
Reconciliation of Governmental Fund Fund Balances
to Statement of Net Assets
December 31, 2007

Fund balances - total governmental funds	\$ 880,797
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets, net	9,710,882
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Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term receivables	81,250
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Certain liabilities, including amounts due for compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(7,765,000)
Deduct: compensated absences	(34,150)
	<hr/>

Net assets of governmental activities	<u><u>\$ 2,873,779</u></u>
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The accompanying notes are an integral part of these financial statements.

CHELSEA DISTRICT LIBRARY
Statement of Revenue, Expenditures
and Changes in Fund Balances and Statement of Activities
Governmental Funds
For the Year Ended December 31, 2007

	2005 Library					Statement
	Building and Site		Debt			of Net
	General	Capital Project	Service	Total	Adjustments	Assets
Revenue						
Property taxes	\$ 1,302,292	\$ -	\$ 545,996	\$ 1,848,288	\$ -	\$ 1,848,288
State aid	11,144	-	-	11,144	-	11,144
Penal fines	27,287	-	-	27,287	-	27,287
Circulation fines	25,146	-	-	25,146	-	25,146
Charges for service:						
Copier and printer	5,866	-	-	5,866	-	5,866
Non-resident fees	4,066	-	-	4,066	-	4,066
Interest	38,372	283	989	39,644	-	39,644
Donations:						
Collections	1,810	-	-	1,810	-	1,810
Capital campaign	132,944	-	-	132,944	81,250	214,194
Other	18,780	-	-	18,780	-	18,780
Grants	4,575	-	-	4,575	-	4,575
Total revenue	1,572,282	283	546,985	2,119,550	81,250	2,200,800
Expenditures/expenses						
Wages	683,092	-	-	683,092	6,827	689,919
Fringe benefits	80,135	-	-	80,135	-	80,135
Collection expense	162,099	-	-	162,099	-	162,099
Opening day collection expense	917	-	-	917	-	917
Board expense	2,942	-	-	2,942	-	2,942
Capital outlay	26,603	310,001	-	336,604	(322,673)	13,931
Maintenance service contracts	73,298	-	-	73,298	-	73,298
Continuing education	18,468	-	-	18,468	-	18,468
Professional services	47,555	8,237	-	55,792	-	55,792
Programming	35,321	-	-	35,321	-	35,321
Volunteer services	721	-	-	721	-	721
Promotional material	32,808	-	-	32,808	-	32,808
Rent	-	-	-	-	-	-
Supplies	30,199	-	-	30,199	-	30,199
Telecommunications	18,743	-	-	18,743	-	18,743
Automation services	30,991	-	-	30,991	-	30,991
Utilities	76,394	-	-	76,394	-	76,394
Depreciation	-	-	-	-	349,757	349,757
Debt service:						
Principal	-	-	230,000	230,000	(230,000)	-
Interest	-	30	317,216	317,246	-	317,246
Total expenditures/expenses	1,320,286	318,268	547,216	2,185,770	(196,089)	1,989,681
Revenue over (under)						
expenditures/expenses	251,996	(317,985)	(231)	(66,220)	66,220	-
Other financing sources (uses)						
Transfers in	-	1,001,867	-	1,001,867	(1,001,867)	-
Transfers out	(1,001,867)	-	-	(1,001,867)	1,001,867	-
Total other financing sources (uses)	(1,001,867)	1,001,867	-	-	-	-
Net change in fund balances	(749,871)	683,882	(231)	(66,220)	66,220	-
Change in net assets	-	-	-	-	211,119	211,119
Fund balance/net assets, beginning of year	910,315	127	36,575	947,017	1,715,643	2,662,660
Fund balance/net assets, end of year	\$ 160,444	\$ 684,009	\$ 36,344	\$ 880,797	\$ 1,992,982	\$ 2,873,779

The accompanying notes are an integral part of these financial statements.

CHELSEA DISTRICT LIBRARY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
For the Year Ended December 31, 2007

Net change in fund balances - total governmental funds	\$ (66,220)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	322,673
Deduct: depreciation expense	(349,757)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather deferred to the following fiscal year.

Add: change in deferred long-term receivables	81,250
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In addition, funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are capitalized and amortized on the statement of activities.

Add: principal payments on long-term liabilities	230,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in the accrual for compensated absences	(6,827)
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Change in net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">\$ 211,119</div>
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The accompanying notes are an integral part of these financial statements.

CHELSEA DISTRICT LIBRARY
Statement of Revenue, Expenditures
and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended December 31, 2007

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Revenue				
Property taxes	\$ 1,271,064	\$ 1,271,064	\$ 1,302,292	\$ 31,228
State aid	5,000	5,000	11,144	6,144
Penal fines	25,000	25,000	27,287	2,287
Circulation fines	13,452	13,452	25,146	11,694
Charges for service:				
Copier and printer	3,500	3,500	5,866	2,366
Non-resident fees	2,070	2,070	4,066	1,996
Interest	8,500	8,500	38,372	29,872
Donations:				
Collections	-	970	1,810	840
Capital campaign	-	-	132,944	132,944
Other	2,500	13,480	18,780	5,300
Grants	-	4,575	4,575	-
Total revenue	1,331,086	1,347,611	1,572,282	224,671
Expenditures				
Wages	717,613	701,108	683,092	18,016
Fringe benefits	88,846	88,158	80,135	8,023
Collection expense	155,305	165,555	162,099	3,456
Opening day collection expense	-	-	917	(917)
Board expense	3,096	4,200	2,942	1,258
Capital outlay	12,000	21,217	26,603	(5,386)
Maintenance service contracts	76,972	86,155	73,298	12,857
Continuing education	20,905	22,770	18,468	4,302
Professional services	40,225	53,065	47,555	5,510
Programming	19,950	40,840	35,321	5,519
Volunteer services	1,100	1,100	721	379
Promotional material	21,300	45,030	32,808	12,222
Supplies	34,000	31,800	30,199	1,601
Telecommunications	14,548	23,500	18,743	4,757
Automation services	40,383	36,398	30,991	5,407
Utilities	75,300	86,800	76,394	10,406
Total expenditures	1,321,543	1,407,696	1,320,286	87,410
Revenue over (under) expenditures	9,543	(60,085)	251,996	312,081
Other financing sources				
Transfers out	-	-	(1,001,867)	(1,001,867)
Net change in fund balances	9,543	(60,085)	(749,871)	(689,786)
Fund balance, beginning of year	910,315	910,315	910,315	-
Fund balance, end of year	\$ 919,858	\$ 850,230	\$ 160,444	\$ (689,786)

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

CHELSEA DISTRICT LIBRARY

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Chelsea District Library (the “Library”) was formed in 1998 by the Village of Chelsea (now the City of Chelsea), and Dexter, Lima, Lynda, and Sylvan Townships when they entered into the District Library Agreement. Under the terms of the agreement, these municipalities agreed that the District Library should serve their residents but that the resident must approve the formation of the District Library by adopting an operating millage that would be sufficient to pay the expenses of the library serving this population. This millage was approved on October 5, 1999 by the residents of the newly established Chelsea District Library.

The Library has implemented the Governmental Accounting Standards Board’s Statement No. 14, and has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the Library.

B. Government-wide and fund financial statements

The Government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Library had no business-type activities during the year ended 2007.

Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The Library-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CHELSEA DISTRICT LIBRARY

Notes to the Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received, intergovernmental revenue, and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Library reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The library building and site capital project fund is used to account for the renovation, equipping and expansion of the existing library and site improvements

The debt service fund is used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CHELSEA DISTRICT LIBRARY

Notes to the Financial Statements

D. Assets, liabilities and equity

1. Cash and cash equivalents/investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are recorded at fair value, based on quoted market prices.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

3. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-40
Equipment and furniture	3-15

CHELSEA DISTRICT LIBRARY

Notes to the Financial Statements

4. Compensated absences

Compensated absences represent the estimated liability to be paid to employees under the Library's compensated absences policy. It is the Library's policy to permit employees to accumulate earned but unused paid time off benefits. All paid time off benefits are accrued when incurred in the government-wide financial statements.

5. Long-term obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

6. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

The General fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal

CHELSEA DISTRICT LIBRARY

Notes to the Financial Statements

budget as originally adopted and as amended by the Library Board. The budget for the General Fund is adopted on a total basis for revenue and a functional basis for expenditures; expenditures at this level in excess of budgeted amounts are a violation of Michigan law. Variances with the Final Budget are shown on the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets follows:

Statement of Net Assets:

Cash and cash equivalents	\$ 571,072
Investments	<u>497,359</u>
	<u>\$ 1,068,431</u>

These balances are disclosed in the notes as follows:

Petty cash	\$ 210
Bank deposits (checking and savings accounts)	570,862
Investments	<u>497,359</u>
	<u>\$ 1,068,431</u>

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the United States, certain commercial paper, repurchase agreements, banker acceptances and mutual funds composed of otherwise legal investments.

Investments

The District chooses to disclose its investments by specifically identifying each. As of December 31, 2007, the District had the following investments:

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Michigan Liquid Asset Fund	n/a	<u>\$ 497,359</u>	S&P AAA

CHELSEA DISTRICT LIBRARY

Notes to the Financial Statements

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates of investments are shown in the investment schedule above.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year-end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year end, \$483,851 of the Library's bank balance of \$583,851 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Library does not have a policy for investment custodial credit risk. Although uninsured and unregistered, the Library's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department or agent in the Library's name.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on concentration of credit risk.

CHELSEA DISTRICT LIBRARY

Notes to the Financial Statements

B. Capital assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 213,191	\$ -	\$ -	\$ 213,191
Construction in progress	9,392,458	-	9,392,458	-
Total capital assets, not being depreciated	9,605,649	-	9,392,458	213,191
Capital assets, being depreciated:				
Buildings and improvements	411,069	8,883,614	-	9,294,683
Equipment and furniture	455,631	831,517	-	1,287,148
Total capital assets, being depreciated	866,700	9,715,131	-	10,581,831
Less accumulated depreciation for:				
Buildings and improvements	411,069	222,090	-	633,159
Equipment and furniture	323,314	127,667	-	450,981
Total accumulated depreciation	734,383	349,757	-	1,084,140
Total capital assets, being depreciated, net	132,317	9,365,374	-	9,497,691
Governmental activities capital assets, net	\$ 9,737,966	\$ 9,365,374	\$ 9,392,458	\$ 9,710,882

C. Deferred revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the deferred revenue recorded in the governmental activities consisted entirely of unavailable property taxes.

CHELSEA DISTRICT LIBRARY

Notes to the Financial Statements

E. Long-term debt

The following is a summary of long-term debt outstanding of the Library for the year ended December 31, 2007:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within One Year
Governmental Activities					
General Obligation Bonds	\$ 7,995,000	\$ -	\$ 230,000	\$ 7,765,000	\$ 265,000
Compensated absences	27,323	28,867	22,040	34,150	22,000
	<u><u>\$ 8,022,323</u></u>	<u><u>\$ 28,867</u></u>	<u><u>\$ 252,040</u></u>	<u><u>\$ 7,799,150</u></u>	<u><u>\$ 287,000</u></u>

Bonds payable at December 31, 2007, are comprised of the following issues:

General Obligation Bonds:

\$8,225,000 building and site bonds due in
annual installments of \$265,000 to \$670,000
through the year 2024; interest at 3.00% to 4.65% **\$7,765,000**

The annual requirements to service the bonds outstanding as of December 31, 2007, are as follows:

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2008	\$ 265,000	\$ 309,677
2009	295,000	301,277
2010	325,000	291,571
2011	340,000	280,340
2012	360,000	268,090
2013-2017	2,115,000	1,113,290
2018-2022	2,755,000	614,657
2023-2024	<u>1,310,000</u>	<u>61,134</u>
	<u><u>\$ 7,765,000</u></u>	<u><u>\$ 3,240,036</u></u>

CHELSEA DISTRICT LIBRARY

Notes to the Financial Statements

Compensated absences represent the estimated liability to be paid employees under the Library's paid time off pay policy. Under the policy, employees earn paid time off based on time of service with the Library. Compensated absences are generally liquidated by the General Fund.

F. Receivables and Payables and Inter-fund transfers

The Library often has interfund balances between its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. At December 31, 2007, there were receivables of \$682,273 and \$12,636 in the capital project and debt service funds from the general fund.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended December 31, 2007, transfers of \$ 1,001,867 were for providing resources to fund the Library renovation and expansion project.

IV. OTHER INFORMATION

A. Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for medical claims and participates in the Michigan Municipal League Liability and Property Pool for claims relating to property and general liability and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

B. Employee Retirement Systems and Plans

The District Library does not maintain a retirement system for its employees. It does however provide a "cafeteria" type benefit arrangement where employees can choose from Code Section 457 deferred compensation "pick-up" contributions, or health insurance benefits. During the year ended December 31, 2007, the expense of these "pick-up contributions" was \$16,547.

CHELSEA DISTRICT LIBRARY

Notes to the Financial Statements

Since the Plan assets were placed in a custodial account in accordance with changes made to IRC 457 deferred compensation plans, and the assets of the plan are for the exclusive benefit of the Library's employees, no assets or liabilities of the Plan are included in the Library's statements.

C. Property Taxes

The assessed and taxable value of real and personal property for the December 1, 2006 levy, for which revenue was recognized in fiscal 2007, was \$775,985,241. The general operating tax rate for this levy was at the maximum rate of 1.638 mills, as adjusted by the Headlee Amendment to the State of Michigan Constitution. The Library also has a voter approved tax of .7000 mills for debt service.

The assessed and taxable value of real and personal property for the December 1, 2007 levy was \$839,240,447. The general operating tax rate for this levy was at the maximum rate of 1.6321 mills, as adjusted by the Headlee Amendment to the State of Michigan Constitution. No revenue for the 2007 winter tax roll is recognized for the year ended December 31, 2007. Under State Law, these collections must be deferred and recognized as revenue in the fiscal year ending December 31, 2008. A receivable has been recorded for the amounts due to the Library.

D. Building Project

On May 4, 2006 the voters of the District Library approved a proposal to allow the Library to issue \$8,225,000 in Unlimited Tax General Obligation Bonds, to partially finance renovations, equipping, expanding and furnishing the existing library building, along with site improvements. The total project cost is expected to exceed \$9.3 million, and the additional funding is expected to be accomplished with the proceeds of the District's Capital Campaign. Provided below is the status of the Campaign as of December 31, 2007:

<u>Year</u>	<u>Amount Received</u>
2004	\$ 272,951
2005	368,145
2006	325,396
2007	95,058
Balance due in future periods	81,250

The balance due in future periods has been recorded as a receivable in the general fund, with an offset to deferred revenue. Management believes that the entire balance of \$81,250 at December 31, 2007 is collectible.

* * * * *

June 18, 2008

To the Board of Directors of
Chelsea District Library

We have audited the financial statements of the governmental activities and each major fund of **Chelsea District Library** for the year ended December 31, 2007, and have issued our report thereon dated June 18, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated January 25, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of **Chelsea District Library**. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on January 23, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by **Chelsea District Library** are described in Note 1 to the financial statements. No new

accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks. We evaluated the key factors and assumptions used to develop accrued compensated absences in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: Significant adjustments were made to beginning fund balance and expenditure accounts to account for prior year audit adjustments that were not posted by the Library. In addition, significant adjustments were required to correctly record receivables related to taxes and pledges, and to correct for previous year adjusting entries which were not posted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 18, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the **Chelsea District Library** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned below the "Very truly yours," text.

Chelsea District Library

Comments of Significant Deficiencies and Material Weaknesses

For the Year Ended December 31, 2007

In planning and performing our audit of the financial statements of the Chelsea District Library (the "Library") as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the 's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 's internal control. Accordingly, we do not express an opinion on the effectiveness of the 's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies, as described below, to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that certain deficiencies, as described below, constitute material weaknesses.

We did not audit Chelsea District Library's' response and, accordingly, we express no opinion on it.

Significant Deficiencies

Preparation and Review of Journal Entries

Criteria:	An important component of any internal control system is the independent review of journal entries as a check for accuracy, completeness and appropriateness.
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Chelsea District Library

Comments of Significant Deficiencies and Material Weaknesses

For the Year Ended December 31, 2007

Condition/Finding:	As a part of our procedures related to Statements on Auditing Standards (SAS) No. 99, we reviewed the Library's procedures related to journal entries and noted that once a journal entry is prepared by the contracted bookkeeper, there is no independent review by a Library employee.
Cause:	This condition is the result of past practice of only the contracted bookkeeper handling the general ledger function and lack of additional knowledgeable personnel dedicated to the Library's accounting function.
Effect:	This condition increases the likelihood that an inappropriate or fraudulent journal entry could be posted to the general ledger and not be detected. Also, it decreases the usefulness of interim financial reports because the probability that an "honest error" would not be caught is also significant.
Recommendation/Comment:	We recommend that a responsible official review journal entries after they are prepared as a check for journal entry appropriateness and completeness. This review should be done by an individual who has knowledge of the Library's general ledger system and chart of accounts. The preparation and review should be documented by initialing and dating the printed copy of the entry.
View of Responsible Officials:	

Material Weaknesses

Preparation of Financial Statements in Accordance with GAAP

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition/Finding:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Chelsea District Library

Comments of Significant Deficiencies and Material Weaknesses

For the Year Ended December 31, 2007

Cause:	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
Recommendation/Comment:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.
View of Responsible Officials:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Audit Adjustments

Criteria:	The Library is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.
Condition/Finding:	Audit procedures detected that the receivable and deferred revenue related to property taxes were materially misstated and required correction. In addition, it was discovered during the audit that the investment accounts had not been reconciled (transfers made and interest earned had not been posted) and were materially misstated.
Cause:	The Library's internal controls did not detect all adjustments necessary to properly record year-end balances.
Effect:	As a result of this condition, significant audit adjustments were necessary in order to properly record receivables and deferred revenue related to property taxes as well as investments, interest revenue and transfers.
View of Responsible Officials:	The Library will make every attempt in the future to have all closing entries recorded.

Chelsea District Library

Comments of Significant Deficiencies and Material Weaknesses

For the Year Ended December 31, 2007

Management Review and Reconciliation of Annual Financial Statements

Criteria:	The Library is responsible for the accuracy of their financial statements even though it relies on its external auditors for assistance with this task.
Condition/Finding:	During our preparation of the current year financial statements, we noted instances where the Library's trial balance for the year ended December 31, 2006 did not agree to the audited financial statements. In addition, significant adjustments were required to fund balance, investments and expenditures because the 2006 audit adjustments were not posted to the Library's books.
Cause:	This condition was caused by the Library's reliance on the external auditor and the lack of review of the financial statements and comparison to the general ledger by the Library personnel.
Effect:	As a result of this condition, the Library did not have accurate beginning balances in certain of its financial records for 2007, rendering many interim financial reports throughout 2007 inaccurate. In addition, significant adjustments were required to fund balance, investments, transfers and expenditures because the 2006 audit adjustments were not posted to the Library's books.
View of Responsible Officials:	The Library will post audit adjusting entries from the 2007 audit.

Other Matters

Review of Payroll Register

The Library currently uses an outside contractor, Payroll 1, to handle its payroll functions, including paying employees and remitting payroll taxes. The Administrative Assistant is responsible for calling in hours worked and all pay rate changes to Payroll 1 each week. The only person who was reviewing the payroll register from Payroll 1 was the contracted bookkeeper and this was simply to post the related journal entries. Without proper review it is possible for the Administrative Assistant to call in unapproved hours or pay increases. Although we saw no evidence that this is occurring, we recommend that an appropriate individual review the payroll register weekly and evidence this review by initialing and dating the register.

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